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Spain Likely in Recession; 2009 GDP Forecasts Continue to Decline

1.(U) Second Vice President and Finance Minister Solbes acknowledged that it appeared likely that the economy was contracting in the fourth quarter of 2008, which would put Spain in a recession as the second consecutive quarter of contraction. As the outlook for 2009 continues to worsen, forecasters are beginning to predict that GDP will shrink by more than the 1 percent that the IMF had predicted several weeks ago, which was previously the most pessimistic prediction. The FUNCAS savings bank association predicted that GDP would fall by 1.5 percent in 2009 and that unemployment would peak at 18 percent in 2010. Deutsche Bank predicted a 2.6 percent GDP decline in 2009. (Expansion, 12/30; ABC, 12/22; El Confidencial, 12/29)

Treasury Notifies Banks and Cajas of Debt Guarantees

2.(U) During the week, the Treasury notified 53 banks and cajas (savings banks) that the GOS would guarantee almost 100 billion euros of their new debt issues in the first half of 2009. As part of a series of measures to spur lending and liquidity, the GOS had announced in October that it would be willing to guarantee up to 100 billion euros of new debt issued by major financial institutions in Spain. Fifty-four major institutions out of a possible 56 had applied by the December 3 deadline. (Expansion, 12/31/08)

GOS Announces Proposed Regional Financing Plan

3.(U) The GOS unveiled the outlines of its regional financing proposal December 30, announcing that it would grant Autonomous Community (regional) governments more control over taxes collected within their borders and would supplement regional government funding on population, health care, education and social services needs. Second Vice President Solbes hopes for an agreement by the end of January. Opposition Partido Popular leader Mariano Rajoy continues to voice concern over the possible tax and budget implications, but some key PP and PSOE regional presidents (the equivalent of governors) appear cautiously satisfied with the proposed plan. Under the old model, the central government received a greater share of taxes, redistributing a portion of these funds to poorer communities. Under the new model, the central government would spend more overall while ceding more fiscal autonomy to the regions themselves. (All media 12/31/08)

#### Tourism Down 11 Percent in November

4.(U) The Ministry of Industry, Tourism, and Commerce reported on December 22 that 11.6 percent fewer international tourists arrived in November 2008 than had arrived in November 2007. This double-digit decline is one of the largest over the past several years, a blow to an industry which represents over 10 percent of Spain's GDP. For the year through November, arrivals were down 2 percent from the same period in 2007. Despite this decline, Spain remains the world's second largest destination country for international tourists. (El Pais, 12/22/08; Ministry statement 12/22/08)

#### Stocks End 2008 Down Almost 40 Percent

5.(U) The Ibex-35 blue-chip index ended 2008 down 39.4 percent from its end-2007 level, a slightly better

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performance than other major Euro zone indices. The broader market suffered a similar decline. Spain's market remains very concentrated, with four companies (Telefonica, Banco Santander, Iberdrola, and BBVA) accounting for 60 percent of the IBEX-35's market capitalization. (All media, 12/31/08)

#### Legal Music Downloads Almost Double in 2008, Still Far Below Illicit Total

6.(U) According to the Music Producers of Spain (PROMUSICAE), legal downloads of copyrighted music almost doubled in 2008, reaching a total of 32 million compared to 17 million in 2007. Marketers of digital music, such as iTunes Spain, hail the increase as proof that the industry is responding to demand by making more music legally available on the internet. However, they note that illicit peer-to-peer downloads continue to far surpass the number of legal downloads. PROMUSICAE estimates that there were 1.2 billion illicit downloads of music in Spain in 2007 and probably more in 2008. Rights-holders continue to complain that unchecked digital piracy is inhibiting the development of the legal market. While the music industry has made considerably more digital content legally available over the past few years, telecommunications companies note that movie distributors have lagged behind in this area, and they blame the lack of legal supply for the high piracy rates for films. (El Pais, 12/30/08)

#### GOS Buying Kyoto CO2 Emission Credits to Compensate for Excess Emissions

7.(U) The Environment, Rural, and Marine Affairs Ministry has purchased 6 million tons of CO2 emissions credits from Hungary, making the GOS one of the first governments to purchase credits from eastern Europe, and is negotiating with several other eastern European governments to help compensate for its excess emissions above its Kyoto Protocol commitment. The GOS also has obtained 60 million tons of credits through clean energy projects, mainly in Latin America and Asia.

Spain's emissions in 2007 were 50 percent above its 1990 level, and its Kyoto target is to be 15 percent above its 1990 level in 2012. The GOS says that emissions will decline between 2008 and 2012, reaching in 2012 a level 37 percent above the 1990 level. GOS officials have said that they expect to make up the difference by purchasing 159 million tons for the excess of emissions from transportation and households. If prices do not change, this would cost around 1.2 billion euros. The GOS also expects that industry will need to buy 130 million tons to compensate for its excess. (El Pais, 1/2/09)

#### Acciona Opens 46 MW Solar Power Plant in Portugal

8.(U) Spanish energy and construction company Acciona inaugurated the solar photovoltaic plant, which it says is the largest of its kind in the world, on December 29. Located in Amareleja, Portugal, near the Spanish border, the plant was built at a cost of 261 million euros (\$367 million) and meets 30 percent of the Portuguese government's goal to install 150 MW of solar PV. (Cinco Dias, 12/30/08)

#### Iberia Pilots' Slowdown Inconveniences Travelers

9.(U) Spain's largest airline, Iberia, has suffered a heightened level of delays and cancellations since early December, when talks with pilots over contract changes broke down. Delays have reportedly increased from 20 percent of flights to 70 percent, and over 400 flights have been cancelled. Iberia has accused the SEPLA pilots association of illegally instigating a strike, and has filed a court petition to review SEPLA meeting notes. SEPLA says its pilots are merely complying with the letter of their obligations and that flight delays and cancellations are due completely to staffing and administrative issues. Estimates suggest that over 700,000 passengers have been affected by the delays and cancellations. (El Pais, 12/22-31/08)  
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